No. 14701.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

KIMBERLY CORPORATION, a corporation,

Appellant,

vs.

HARTLEY PEN COMPANY, a corporation, LINDY PEN CO., INC., a corporation, and SIDNEY LINDEN, individually and doing business as Adams-Linden Co.,

Appellees.

Opening Brief for Intervener-Appellant, Kimberly Corporation.

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TOPICAL INDEX

TABLE OF AUTHORITIES CITED

CASES PAGE

PAGE

RULES

STATUTE

TEXTBOOK

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Jurisdictional Statement.

Intervener-appellant filed an amended complaint [R. 16-27, incl.],* alleging that patent 2,498,009 (the subject-matter of the action by Hartley Pen Company, plaintiff-appellee, for infringement against Lindy Pen Co., Inc., *et al.,* defendants) rightfully belonged to the appellant [R. 23, par. 19].

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*Abbreviations "R" followed by numbers will hereinafter designate the transcript of record and the page numbers.

Federal jurisdiction is thus based broadly upon the proposition that intervener's claims are ancillary to the main action, which action is properly before the Court, and therefore no further basis for Federal jurisdiction is required [Finding VI, R. 43, 44].

Statement of the Case.

This is an appeal from a judgment dismissing intervener-appellant's first amended complaint on the ground that intervener-appellant's claim was barred by laches [R. 56].

An action was originally commenced by Hartley Pen Company, the original plaintiff herein, against Lindy Pen Co., Inc., *et al.*, claiming infringement of the patent here in suit [Finding III, R. 41, 42].

Appellant claiming to be equitably entitled to the patent in suit, upon application therefor was permitted to intervene in the action. To appellant's first amended complaint in intervention, plaintiff-appellee interposed, among other defenses, the affirmative defense of laches [R. 38, par. XXXVI]. The trial court ordered a separate trial upon the issues raised by said affirmative defense [R. 40; Finding IX, R. 45].

Intervener-appellant's first amended complaint [R. 16 *et seq.*], briefly summarized, alleges as follows: that since prior to 1945, it was engaged in the manufacture of ball point pens [R. 18]; that one Hartley M. Sears from some time in 1945 to May, 1947, was employed by it in the capacity of Chief Engineer and Technical Director in connection with the manufacture of its pens [R. 19, 20,

21]; that one Clarence O. Schrader was also employed by it from some time in 1945 to May, 1947, in the capacity of General Foreman and assistant to said Sears [R. 19, 20, 21]; that by reason of the nature of their employment, said Sears and Schrader were obligated to assign all patent rights in any improvement made by them in connection with ball point pens and parts thereof to intervener-appellant [R. 19]; that by reason of the nature of the employment of said Sears and Schrader and the relationship of the parties, intervener-appellant reposed full trust and confidence in said Sears and Schrader [R. 20].

Said complaint further alleges that in the course of their duties as such employees of intervener-appellant, said Sears and Schrader jointly invented the apparatus and method which is the subject-matter of the patent in suit [R. 20]; that on or about May 1, 1947, Sears left the employ of intervener-appellant [R. 20, 21]; that shortly prior to his leaving said employment, Sears was asked by intervener-appellant whether all necessary steps had been taken for obtaining patent protection on everything conceived or developed for intervener-appellant generally and the invention embodied in the patent in suit in particular [R 21]; that in answer to said inquiry and in violation of the trust and confidence reposed in him, Sears falsely represented to intervener-appellant that the machine protected by the patent in suit did not include any patentable features; that in truth and in fact said Sears, in collaboration with Schrader, and while both were still employed by intervener-appellant, had already taken steps for the filing of a patent application based

upon the machine and the method which resulted in the patent in suit [R. 21].

Intervener-appellant's complaint further alleges that relying on the fraudulent representations of said Sears, it made no further inquiry regarding the patenting of said machine and did not learn of the issuance of said patent until the early part of December, 1953 [R. 21, 22]; and that Sears and Schrader had concealed from intervener-appellant both the fact that they had applied for a patent on said machine and that said patent had issued [R. 22].

Intervener-appellant's complaint further alleges that Hartley Pen Company, plaintiff-appellee, is not a bona fide assignee for value of the application that resulted in the issuance of said patent, for the reason that Sears and Schrader were among its original incorporators, that Sears was a major stockholder, director and President thereof, and that both Sears and Schrader had been in active charge of its business affairs; and that therefore at the times pertinent herein, plaintiff-appellee had knowledge of the prior paramount rights of intervener-appellant at and prior to the time that the assignment of said application for Letters Patent was made to it [R. 23].

So far as pertinent to this appeal, the complaint prays for a judgment ordering that Hartley Pen Company, plaintiff-appellee, execute an assignment of said patent to intervener-appellant, for an injunction, an accounting and other appropriate relief [R. 25].

On October 26, 1954 a separate trial was had on the issues raised by the affirmative defense of the bar of

laches.* By stipulation, certain affidavits on file in the proceeding were accepted as the first testimony of the respective parties offering same [Finding IX, R. 45].

The trial court found that intervener-appellant had both actual and constructive notice of facts which should have caused it to assert its claim at an earlier time. The substance of said findings may be summarized as follows:

(1) That one Casimir A. Miketta, a patent lawyer, acting as agent for intervener-appellant knew of the refusal of Sears and Schrader to assign inventions made in the course of their employment with intervener-appellant [Finding XV, R. 49, 50].

(2) That an assignment of the application resulting in the patent to Hartley Pen Company, appellee herein, was recorded in the Patent Office on November 12, 1949 [Finding XVIII, R. 52, 53].

(3) That the patent in suit was issued on February 21, 1950 [Finding XVIII, R. 53].

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*In an equity case involving fraud, by analogy to actions at law, the time pertinent to the defense of laches may be reasonably assumed to begin with discovery of the fraud.

The pertinent Califorina statute Section 338, subdivision 4 of the Code of Civil Procedure states that:

> "Within three years.
> "* * *
> "4. An action for relief on the ground of fraud or mistake. The cause of action in such case not to be deemed to have accrued until the discovery, by the aggrieved party, of the facts constituting the fraud or mistake."

This section has been interpreted by the California courts to the effect that "discovery" of a fraud can be referred to a time when a reasonably prudent man would make inquiry, or when it was the duty to make such inquiry.

(4) That Sears told Croan, an employee of appellant, prior to the middle of 1950, of the issuance and content of the patent in suit [Finding XIX, R. 53, Footnote 19].

(5) That Mr. Miketta informed intervener-appellant of the refusal of Sears and Schrader, prior to June 5, 1947, to agree to assign to it inventions made in the course of their employment by said intervener-appellant [Findings XV, XVI, R. 49, 50, 51, 52].

(6) That Croan, while in the employ of intervener-appellant, prior to the middle of 1950, had one or more discussions with Mr. Zyga Taube, an officer of intervener-appellant, about the patent in suit and that therefore intervener-appellant knew of the issuance of the patent in suit [Finding XIX, R. 53 which refers in Footnote 19 to the testimony of Croan].

(7) That intervener-appellant was negligent in failing to take steps to ascertain whether the machine was patentable [Finding XIV, R. 48].

No evidence whatever was adduced by plaintiff-appellee on the issue as to whether it had in any way been prejudiced by the purported delay in the assertion of intervener's claim and no finding was made on that issue.

The Court ordered [R. 40] that plaintiff lodge findings, and the Findings of Fact were accordingly prepared by counsel for plaintiff-appellee. These were adopted by the Court as presented.

The evidence adduced at the trial established without dispute that Mr. Miketta, a patent attorney, represented both intervener-appellant on the one hand and Sears and Schrader on the other hand during the critical periods

involved in this controversy. This fact was unknown to intervener-appellant. It was the contention of intervener-appellant therefore that as a matter of law, Mr. Miketta could not have been a conduit for constructive notice to said intervener-appellant. A motion was made under Rule 52(b) F. R. C. P. to amend the Findings in order to reflect these facts [R. 59, 60]. This motion was denied [R. 67].

Intervener-appellant's position is as follows:

(1) That it had neither actual nor constructive notice of the alleged fraud perpetrated upon it by Sears and Schrader, or of any facts sufficient to put it on inquiry, until early December, 1953.

(2) That Casimir A. Miketta, its patent counsel, was, as a matter of law, not a conduit for constructive notice of any of the facts relating to said fraud, for the reason that he was at that time representing adverse interests—both intervener-appellant, and Sears and Schrader.

(3) That intervener-appellant was never actually informed by anyone that Sears and Schrader were refusing to assign patent rights based upon an alleged claim on their part that they were not obligated to do so; and that such testimony as was given on this subject by witnesses for plaintiff-appellee is confused, contradictory, and so uncertain as to be without probative value.

(4) That neither the recording of the assignment of the application for Letters Patent nor the issuance of the patent itself constituted constructive notice to intervener-appellant so as to give rise to a duty to investigate, since the confidential relationship existing between it and

Sears and Schrader relieved intervener-appellant from any duty to search the public records to determine the pendency or issuance of the patent in suit.

(5) That the purported conversation in 1950 between Sears and Croan relating to the patent in suit was not constructive notice for any purpose to intervener-appellant since it was not shown that Croan was a "representative" of intervener-appellant, or that he occupied a legal relationship with respect to intervener-appellant which would constitute him a legal conduit for constructive notice.

The questions therefore to be determined on this appeal are as follows:

(a) Did intervener-appellant have such timely constructive or actual notice of facts relating to the alleged fraud as to form a basis for the defense of laches interposed by plaintiff-appellee?

(b) Was there any showing on the part of plaintiff-appellee of prejudice or damage to it as a result of the purported delay in the assertion by intervener-appellant of its said claim?

(c) Whether or not upon a consideration of the entire evidence in this case a mistake has been committed, and whether or not the Findings in this case and the Judgment based thereon are clearly erroneous.

Specification of Errors Relied Upon.

1. Mr. C. A. Miketta, as patent attorney and unknown to appellant, represented adverse interests as between Sears and Schrader, on the one hand, and intervener-appellant, on the other hand, during the occurrences that are significant in this action. The law is settled that under the circumstances, Mr. Miketta could not be deemed to be a source of constructive notice to appellant of the alleged fraud. This all-important matter, overshadowing this litigation, was not mentioned in either the Findings of Fact or Conclusions of Law, although appellant requested such findings [R. 57 *et seq*]. *As a matter of law,* therefore, the trial court erred in finding that Mr. Miketta's knowledge of facts involved in this controversy was notice to his client, the intervener-appellant.

2. The trial court erred in imputing constructive notice to intervener-appellant of the issuance of the patent in suit by virtue of the asserted conversation between Sears and Croan (an employee of intervener-appellant) in 1950 [R. 98] because it was not shown that Croan was a "representative" or agent of intervener-appellant.

3. The trial court erred in imputing constructive notice to intervener-appellant of the pendency of the application because of the recording of the assignment thereof on November 12, 1949, because the intervener-appellant was under no duty to search the public records.

4. The trial court erred in imputing constructive notice to intervener-appellant of the issuance of the patent on February 21, 1950, because intervener-appellant was under no duty to search the public records.

5. The finding by the trial court to the effect that intervener's executive Vice-President, Zyga Taube, knew of the issuance of the patent in suit in 1950 based upon the equivocal, unsatisfactory, and incredible testimony of Croan, is clearly erroneous.

6. The finding by the trial court to the effect that intervener-appellant had actual knowledge in May, 1947 of the refusal of Sears and Schrader to make a general assignment of their inventions to intervener-appellant, is clearly erroneous because the testimony of Miketta on this matter is so equivocal, confused and unsatisfactory as to constitute the record virtually without support for such a finding.

7. The trial court erred in finding [R. 48, 51, 52] that intervener was negligent or lacking in prudence in failing to make investigations regarding the perpetration of the fraud. It is undisputed that Sears and Schrader, who are accused of fraudulent acts, were in a position of trust and confidence with respect to intervener-appellant. Under the circumstances, intervener-appellant was excused from making such investigation on this subject. Although the trial court was requested to do so [R. 58], the Court failed to make any finding at all on this matter of trust and confidence.

8. The trial court erred in failing to recognize that a mere lapse of time between May, 1947 and January, 1954 alone is not sufficient to sustain the defense of laches; and in failing to find that Hartley Pen Company, appellee herein, did not sustain its burden of proof of prejudice and injury occasioned by the delay.

Summary of Argument.

It is the contention of intervener-appellant that it had neither actual nor constructive notice of the alleged fraud perpetrated by Sears and Schrader until early December of 1953. Mr. Miketta, its patent counsel, was as a matter of law not a conduit for constructive notice of any of the crucial facts which would have disclosed the fraud back in May and June of 1947, and thereafter, for the reason that he was at all of said times representing both intervener-appellant on the one hand, and Sears, Schrader and plaintiff-appellee on the other hand, in an area in which there was a definite conflict of interests. Mr. Miketta admitted that he did not inform intervener-appellant of this dual representation and that once having undertaken to represent Sears on the swedging machine patent he could not and would not reveal any of Sears' business to intervener-appellant.

The record is clear that Mr. Sears was chief engineer in charge of the designing and production of the very machines which produced intervener-appellant's products. He not only knew but was in many instances the very source of crucially confidential information vital to his employer's business. Of necessity, therefore, intervener-appellant was compelled to and did in fact repose complete trust and confidence in him. Under the circumstances and in view of the confidential relationship there was no duty on the part of intervener-appellant to search the public records for the purpose of anticipating a fraud perpetrated by its own trusted employee.

The testimony relating to the purported conversations and other direct communications between Mr. Miketta and

Mr. Croan, on the one hand, and representatives of intervener-appellant on the other hand, alleged by plaintiff-appellee to establish the fact that intervener-appellant had actual notice of the fraud or facts from which it should have discovered the same, is not only refuted by documentary evidence, but is so confused, uncertain and in parts so inherently incredible as to be without probative value. Moreover, plaintiff-appellee neither alleged nor proved that it was in any way prejudiced by the time lapse between its acquisition of the application resulting in the patent, and the assertion of intervener-appellant's claim.

This Honorable Court on the record made in this case is in as good a position as the trial court to appraise the evidence. Such an appraisal of the entire evidence made under Rule 52 (a) (Federal Rules of Civil Procedure) will, we believe, disclose that a mistake has been committed by the trial court; and that the evidence does not support the Findings and the Judgment thereon.

ARGUMENT.

I.

The Findings That Intervener-Appellant Had Timely Constructive Notice of the Alleged Fraud Are Not Supported by the Evidence.

1. Mr. Miketta, Patent Counsel for Intervener-Appellant, Was Not and Could Not Have Been a Conduit for Constructive Notice.

The initial and principal conduit for the possible transmission of constructive notice to intervener-appellant was Mr. Casimir A. Miketta, patent counsel for intervener-appellant, who handled the negotiations with Sears and Schrader relative to the matter of assigning patent rights to intervener-appellant [Finding XV, R. 49, 50]. Mr. Miketta's dual role in representing both the intervener-appellant on the one hand and Sears and Schrader on the other hand during the critical periods involved in this controversy renders any knowledge that Mr. Miketta himself had about these critical transactions ineffective to constitute constructive notice to intervener-appellant. In May of 1947, Mr. Miketta represented Sears in applying for a patent on an invention relating to ball point pens on behalf of Hartley Pen Company, plaintiff-appellee herein [Intervener's Ex. A-1; R. 225, 226].

According to Mr. Miketta's own testimony, it was not until June 2, 1947 that he approached Sears and Schrader on behalf of intervener-appellant for the purpose of requesting that they make a general assignment of inventions and patent rights to intervener-appellant and to its prospective successor, Eversharp, Inc. [R. 200, 241].

It is a well-established rule of law that where an agent or attorney represents adverse interests, knowledge of the agent or attorney obtained in the course of his dealings with the adverse party is not constructive notice to the principal. This rule is supported by numerous cases.

In considering constructive notice by virtue of the attorney-client relationship, the same rules apply as in ordinary agency (*Atkinson v. Foote, et al.,* 44 Cal. App. 149, 165, 186 Pac. 831, 838). Accordingly, decisions involving the principal-agent relationship are pertinent in this connection.

Mr. Miketta having undertaken representation of parties having conflicting interests, the intervener-appellant cannot be presumed to have knowledge of what was going on insofar as Mr. Miketta was concerned. Moreover, in determining whether an agent acting for two parties with conflicting interests is a conduit of constructive notice, it is wholly immaterial that the motives and intention of the agent are honest.

In *Mott v. Nardo,* 73 Cal. App. 2d 159, 165, 166 P. 2d 37, 41, the court at page 165, states:

> ". . . It is the invariable rule that knowledge of the acts of an agent which are in his own interest or in the interest of others and adverse to those of his principal will not be imputed to the principal because of the mere existence of the agency."

See also *Burns v. McCain, et al.,* 107 Cal. App. 291, 295, 290 Pac. 623, 625.

In *Mutual Life Insurance Company of New York v. L. Hilton-Green, et al.,* 241 U. S. 613, 60 L. Ed. 1202, the court says, at page 622:

> "The general rule which imputes an agent's knowledge to the principal is well established. The underlying reason for it is that an innocent third party may properly presume the agent will perform his duty and report all facts which affect the principal's interest. But this general rule does not apply when the third party knows there is no foundation for the ordinary presumption,—when he is acquainted with circumstances plainly indicating that the agent will not advise his principal. *The rule is intended to protect those who exercise good faith, and not as a shield for unfair dealing."* (Italics ours.)

Cases in other jurisdictions consistent with the above are as follows: *Interstate Nat. Bank of Kansas City, Mo. v. Yates Center Nat. Bank of Yates, Kan., et al.,* 245 Fed. 294, 295 (C. C. A. 8); *Skud v. Tillinghast,* 195 Fed. 1, 5 (C. C. A. 6).

The all-important fact of adverse representation is not even hinted at in the Findings or in the Conclusions of Law. We must remember that these findings and conclusions were prepared by Order of the Judge by the attorneys for the plaintiff-appellee [R. 40]. These findings avoid any mention of this dual representation, which dual representation is made amply clear in the record [Affidavit of Miketta, Pltf. Ex. 4, R. 203; Affidavit of Miketta, Pltf. Ex. 4-A, R. 212; Testimony of Miketta, R. 234, 235, 244, 245, 246; Testimony of Sears, R. 99; Intervener's Exs. A-1, R. 225; A-2, R. 226; A-3, R. 226; A-4, R. 228; A-5, R. 229, 230, 231].

This failure to make a finding regarding Mr. Miketta's dual role is in itself a grave error. The importance of the trial court's duty to make full and accurate findings is forcibly discussed in *United States v. Forness, et al.*, 125 F. 2d 928, 942 (C. C. A. 2).

That Mr. Miketta could not be expected to disclose the facts relating to the filing by Sears and Schrader of the application for the patent on the invention embodied in the patent in suit or any other matter affecting Sears' and Schrader's activities is quite clear, both from his testimony at the trial as well as his testimony given on September 20, 1954, the transcript of which is in evidence as Intervener's Exhibit B [R. 233 *et seq.*].

In this connection, Mr. Miketta testified as follows [R. 235]:

> "Question by the Court: At any time between the date of filing of the application and the issuance of the patent, did you ever communicate with anyone in any way connected with Kimberly Corporation about the pendency of that application?
>
> The Witness: No, Your Honor, while it was pending I did not disclose it or talk about it to Kimberly Corporation, because, well, that is a matter that belonged to Sears and Schrader."

Mr. Miketta also testified that he did not discuss one client's business with another client [R. 110, 111]:

> "Q. When did you first learn that that swedging machine was developed in the plant of the Kimberly Corporation? A. The first that I knew of that subject matter was somewhere between June 6th, or June 5th, and June 10th of 1947.

Q. And did Mr. Sears tell you that? A. Yes.

Q. What did he tell you about that development in the Kimberly plant? A. Well, he stated that they had developed—by 'they' I mean Mr. Schrader and Mr. Sears—had developed a machine in a method of holding the little balls in the tip of a ball point pen; and that they had used that over at the Kimberly Corporation; and felt they wanted to get a patent on it.

Q. Did you ever inform Kimberly that you learned that this swedging machine was actually used and had been developed in the Kimberly plant, as soon as you learned it? A. No, I didn't tell Kimberly that. Mr. Sears was not with Kimberly Corporation at that time, and we had gone through, during the preceding months with all those discussions between Kimberly and Sears and Eversharp counsel.

Q. So you didn't tell Kimberly that you had learned about this machine being developed in the plant? A. I don't discuss one client's business with another.

The Court: Your answer is no?

The Witness: 'No,' your Honor."

It is also important to note that Mr. Miketta represented Mr. Sears at least as early as March 11, 1947, approximately two months before the Kimberly-Eversharp transaction commenced, for on that date Mr. Miketta filed an application for Letters Patent covering an invention made by Sears and one Pflueger [Intervener's Ex. B; R. 244, 245].

Furthermore, Mr. Miketta when he testified on September 20, 1954, was positive that he had never represented Sears *on any matter* before June 9th or June 10th

of 1947 [R. 244]. He later admitted in his affidavit filed on October 25, 1954 [Pltf. Ex. 4-A; R. 212] that he was in error and that he had represented Sears on a patent matter in the middle of May, 1947, and had actually filed a patent application for Sears and one Boorman on May 22, 1947. This testimony is further corroborated by Intervener's Exhibits A-1, A-2 and A-3 [R. 225 to 228].

Mr. Miketta also further testified that he did not inform intervener-appellant that he had taken on the representation of Sears and this is corroborated by Sears' testimony [R. 99, 116].

2. The Recording of the Assignment of the Application for the Patent in Suit on November 12, 1949, and the Issuance of Said Patent on February 21, 1950 Did Not Constitute Constructive Notice to Intervener-Appellant Under the Law Applicable to This Case.

It is clear from the evidence that Sears and Schrader were employed by intervener-appellant in technical capacities involving knowledge of manufacturing processes and machinery in the plant of the intervener-appellant. Accordingly intervener-appellant was entirely justified in reposing full trust and confidence in them. That Mr. Sears was in such a confidential relationship to intervener-appellant is also quite forcibly established by Plaintiff's Exhibit E attached to Exhibit 1-B [R. 190]. This Exhibit is a letter of recommendation dated May 1, 1947, signed by Mr. Taube, Executive Vice-President of intervener-appellant and accepted by Mr. Sears in which Sears' ability, moral standing, experience and technical knowledge are glowingly asserted. Moreover, Mr. Sears delineated

the true nature and scope of his employment when he testified as follows:

> "At the time of my employment I was employed as a tool maker to produce, build machines to turn out pens which I had previously designed." [R. 100.]

He testified [R. 100] that his salary was a thousand dollars a month [see also Affidavit of Taube, R. 253].

There is no duty on the part of a defrauded party, particularly where the fraud is perpetrated by a person standing in a position of confidence and trust with respect to the defrauded party, to anticipate the fraud by searching the public records which might give notice thereof.

In *Anderson v. Thacher,* 76 Cal. App. 2d 50, 63, 69, 70, 71, 172 P. 2d 533, 540, 544, 545, at page 69, the court says:

> ". . . The evidence in the case at bar clearly establishes a confidential relation between plaintiff and defendant Thacher, and that the latter abused the confidence placed in him. When the misrepresentations are intentional rather than negligent plaintiff's negligence in failing to discover the falsity thereof is no defense. Seeger v. Odell, 18 Cal. 2d 409, 414, 115 P. 2d 977, 136 A. L. R. 1291. The same case is authority for the statement that the fact that an investigation would have revealed the falsity of the misrepresentations will not always bar recovery. *Defendant Thacher's claim that plaintiff is also charged with knowledge of the contents of the public records of Los Angeles County, which showed the true ownership of the Hollywood Boulevard property (Civ. Code, sec. 1213) is answered by the Supreme Court in Seeger v. Odell, supra, 18 Cal. 2d at page 415, 115 P. 2d at page 980, 136 A. L. R. 1291, wherein it is said: '* * * and it is well established that he is*

not held to constructive notice of a public record which would reveal the true facts. Rest. Torts, sec. 540(b); see cases cited in 12 Cal. Jur. 759, 764; Prosser, Torts, 750, 751. *The purpose of the recording acts is to afford protection, not to those who make fraudulent misrepresentations, but to bona fide purchasers for value.'* Under the facts of the instant case it cannot be said that plaintiff's conduct in the light of her own intelligence and information was manifestly unreasonable. Therefore, she will not be denied recovery. Defendant Thacher cannot be heard to complain that plaintiff reposed too much confidence in him. 'No rogue should enjoy his ill-gotten plunder for the simple reason that his victim is by chance a fool.' Seeger v. Odell, *supra,* 18 Cal. 2d at page 415, 115 P. 2d at page 981, 136 A. L. R. 1291. The law does not applaud fraud and condemn the victim thereof for his credulity. Peculiarly pertinent to the case at bar is the following language used by the Supreme Court in Victor Oil Co. v. Drum, 184 Cal. 226, 241, 193 P. 243, 249:

" 'The courts will not lightly seize upon some small circumstance to deny relief to a party plainly shown to have been actually defrauded against those who defrauded him on the ground, forsooth, that he did not discover the fact, that he had been cheated as soon as he might have done. It is only where the party defrauded should plainly have discovered the fraud except for his own inexcusable inattention that he will be charged with a discovery in advance of actual knowledge on his part.' " (Italics ours.)

In *Dabney v. Philleo et al.,* 38 Cal. 2d 60, 66, 237 P. 2d 648, 652, the Supreme Court of the State of California, at page 66, states:

". . . These facts do not, as a matter of law, show that a reasonable person, in the circumstances

alleged by plaintiffs, who was interested in the estate as an heir should have read the inventory and appraisement and discovered that he had an interest adverse to the estate in properties claimed by it. The mere passage of time and the deaths of his uncle and aunt and the scheduling of the assets claimed by the estate were not circumstances which would necessarily have caused a reasonable man, who 19 years previously had accepted the misrepresentations of the trusted uncle and who had continued to believe in him implicitly, to probe into the administration of the estate of the trusted aunt in an investigation of the truth of the particular misrepresentations which are alleged to have been made.

"Since we cannot as a matter of law reject plaintiffs' explanation of their delay in discovering the facts, we conclude that on the face of their pleading their cause of action did not arise until October, 1949. There has been no unreasonable delay and no change in circumstances prejudicial to defendants since plaintiffs' discovery of the facts. Therefore, the cause of action does not appear to be barred either by limitations or by laches."

Therefore, the mere existence of a public record, such as the recording of an assignment or the issuance of a patent, does not constitute constructive notice under circumstances such as these.

In *Anglo-California Nat. Bank of San Francisco v. Lazard,* 106 F. 2d 693, 704 (C. C. A. 9), the court says:

". . . Moreover, in view of the fact that the confidential relationship between appellants and the owners of the property continued within three years of the bringing of the suit, lack of diligence was not present in failing to make an independent investigation of the 1915 and 1917 sales before 1931."

The Supreme Court of California in *Rutherford v. Rideout Bank,* 11 Cal. 2d 479, 485, 80 P. 2d 978, 982, clearly states, at page 485, as follows:

> "The rule is clearly stated in Victor Oil Co. v. Drum, 184 Cal. 226, 241, 193 P. 243, 249: 'The courts will not lightly seize upon some small circumstance to deny relief to a party plainly shown to have been actually defrauded against those who defrauded him on the ground, forsooth, that he did not discover the fact that he had been cheated as soon as he might have done.' . . . It is true that the plaintiff could have discovered the inadequacy of the price by inquiry but this alone would not necessarily have been sufficient to warn her of the fraud in the light of her belief in the representation, by one in whom she had implicit trust and confidence, that it was, for her best interest to make the sale, even if for only $5 an acre, because otherwise, she would lose everything by foreclosures.
>
> ". . .
>
> ". . . The court found to be true the allegation 'that prior to the date last mentioned (September 15, 1927) the plaintiff had no knowledge of the herein alleged fraud and deceit, nor of any cause or notice to suspicion that fraud or deceit of any kind or character had been practiced upon her.' This finding that plaintiff had no actual knowledge of the fraud nor of any fact which would lead her to suspect that a fraud had been practiced upon her, coupled with the finding of a confidential relationship, can lead to only one conclusion, that the action was not barred. It is therefore sufficient."

In another California case, *Hobart v. Hobart Estate Co.,* 26 Cal. 2d 412, 439, 159 P. 2d 958, 973, at page 439, the court says:

"Another pertinent factor is that there was a fiduciary relationship between the parties at the time of the fraudulent representations. Although the general rules relating to pleading and proof of facts excusing a late discovery of fraud remain applicable, it is recognized that in cases involving such a relationship facts which would ordinarily require investigation may not excite suspicion, and that the same degree of diligence is not required. In Rutherford v. Rideout Bank, 11 Cal. 2d 479, 486, 80 P. 2d 978, 117 A. L. R. 383, it was said that because of such a relationship plaintiff could not be charged with lack of diligence even though an inquiry would have disclosed the true value of the property involved. . . . Defendants argue that the fiduciary relationship terminated when the sale was completed and that plaintiff was no longer entitled to the benefit of the rule. The relationship, nevertheless, did exist at the time of the asserted fraud, and plaintiff was under no duty to make a complete search and reexamination of the entire transaction immediately after it took place merely because the fiduciary relationship between the parties was terminated thereby.

". . .

". . . *In the absence of a duty to make inquiry, as pointed out above, the statute does not run merely because the means of discovery were available, and plaintiff is not compelled to disprove that such means existed.*" (Italics ours.)

See also:

Seeger v. Odell, 18 Cal. 2d 409, 415, 115 P. 2d 977, 980 (S. Ct. of Calif.);

Neet v. Holmes, 25 Cal. 2d 447, 467, 468, 154 P. 2d 854, 864;

Adams v. Harrison, 34 Cal. App. 2d 288, 295, 296, 298, 93 P. 2d 237, 241, 242, 243.

3. The Purported Conversation Between Sears and Croan in 1950 Relating to the Patent in Suit Was Not Constructive Notice to Intervener-Appellant.

The suggestion in Finding XIX and the footnote thereto [R. 53] to the effect that Sears' testimony [R. 98] establishes constructive notice to intervener-appellant is also based upon serious legal error. Sears testified that while Croan was visiting Hartley Pan Company plant on business in 1950, Sears informed him about the patent. It is significant to note that Croan says nothing about this occurrence. Be that as it may, there is nothing in the record to show that Croan was an agent or representative of intervener-appellant so as to constitute him a conduit for constructive notice. In fact [R. 86] plaintiff-appellee objected strenuously to the introduction of any evidence that would have disclosed the status of Mr. Croan and his relationship to intervener-appellant. The purported disclosure by Sears to Croan who, so far as the record is concerned, was a mere employee, and which disclosure was not even made to him in the course of his employment, was not such disclosure to an agent or a representative or person otherwise occupying such a status and relationship to intervener-appellant as would constitute such disclosure to intervener-appellant.

In this connection, attention is called to 2 Cal. Jur. 2d, 859, wherein it is stated:

> "For the knowledge of an agent to be chargeable to his principal when not actually communicated, it must relate to some matter within the scope of the agent's authority so that it is his duty to communicate the information to the principal."

In this connection, see *Primm et al. v. Joyce et al.* (Dist. Ct. of App., 2d Dist.), 87 Cal. App. 2d 288, 291, 196 P. 2d 829, 831, and particularly page 291:

> ". . . And it should be emphasized that the law is well settled that notice to an agent is notice to the principal only as to those things within the scope of the agency."

II.

The Findings That Intervener-Appellant Had Timely Actual Notice of the Facts Constituting the Alleged Fraud Finds No Substantial or Credible Support in the Evidence. The Testimony of Plaintiff-Appellee's Witnesses on the Issue of Actual Notice Is so Confused, Contradictory, Uncertain and Inherently Incredible as to Be Without Any Probative Value.

1. Testimony of Casimir A. Miketta.

As in the case of the issue of constructive notice, we must begin with Mr. Miketta, in analyzing the evidence to see whether it supports the findings that intervener-appellant had actual notice of the adverse claims of Sears and Schrader or of any other facts from which it could or should have discovered the alleged fraud. It will be recalled that in May and June of 1947, certain negotiations were had between Eversharp, Inc., and the stockholders of intervener-appellant relating to an option agreement to purchase the shares of these stockholders [Finding XVI, R. 51, 199, 200]. In the course of said negotiations, Eversharp, Inc., stated that it would require that all patents, whether granted or pending, would have to be assigned to it, and a general form of assignment was prepared for this purpose [R. 117, 118, 142, 143; Pltf. Ex.

B, R. 178, 200]. Mr. Taube testified that some time in June Mr. Miketta told him that Sears and Schrader were not willing to sign the general form of assignment that had been prepared for the reason that they were then engaged in or about to engage in a competitive business, and that he had instructed Mr. Miketta to prepare a form which would not jeopardize Sears' and Schrader's position as far as their new business was concerned [R. 255, 264].

Mr. Miketta, in his first affidavit [Pltf. Ex. 4, R. 200] stated among other things that in the early part of June, 1947, he presented to Sears and Schrader a form of document which he had prepared being in effect a general assignment by them of inventions and patent rights to intervener-appellant but that they refused to sign the same stating that they were not obliged in any manner to assign inventions to intervener-appellant and that the aforesaid position taken by Sears and Schrader on this matter and certain agreements prepared by one Sidney Snyder, former attorney for intervener-appellant, were discussed with Mr. Taube, Mr. Marcus, general attorney for intervener-appellant, and Mr. Foster, patent counsel for Eversharp, Inc., at various conferences, and that it was agreed by the aforesaid parties that since a general assignment of inventions and patent rights could not be procured from Sears and Schrader that shop rights be obtained and this solution appeared to meet with the approval of all parties at such conferences [R. 201].

In his testimony at the trial, however, Mr. Miketta backs away from the statement in his affidavit and asserts that Mr. Taube and Mr. Marcus were not present at the time that the memorandum agreement prepared by Sidney

Snyder were discussed [R. 119]. Although Mr. Miketta was repeatedly pressed for a direct answer as to when he discussed Sears' and Schrader's position and all other related matters (referred to in his affidavit) with Mr. Taube and Mr. Marcus [R. 120], nowhere in the record of the trial do we have a direct and unequivocal statement by Mr. Miketta that he did in fact discuss these matters with Mr. Taube and Mr. Marcus. The most that it was possible to elicit from Mr. Miketta on this point was that he had a distinct recollection that Ward Foster discussed the matter with him; that it had been discussed previously during the early discussions in May of 1947 (although Mr. Miketta fails to state precisely with whom) that "probably everybody in the place knew about it," that Mr. Marcus knew about it and Mr. Taube knew about it (although Mr. Miketta again does not state how he arrives at that conclusion), and that he, Miketta, was convinced that "everybody knew about it." Mr. Miketta finally gives up the ghost by speculating that these communications might have been made to intervener-appellant's representatives by a process of thought transference [R. 120].

We respectfully direct the Court's attention to the cross-examination of Mr. Miketta on pages 118, 119, 120 of the record where we believe the Court will search in vain for one unequivocal clear statement by Mr. Miketta that he directly discussed any of these matters with Mr. Taube, Mr. Marcus or any other representative of intervener-appellant.

The confused, uncertain and contradictory testimony of Mr. Miketta elicited by the cross-examination referred to above shows how utterly insecure are the plaintiff-

appellee's assertions (and the Findings of the Trial Court) that Mr. Miketta was a source of actual notice to intervener-appellant of the adverse claims of Sears and Schrader and of the alleged fraud.

Now, let us examine the record to see what Mr. Miketta did about the alleged refusal of Sears and Schrader to make a general assignment, to see whether what he did could have been a source of notice to intervener-appellant of the adverse position taken by Sears and Schrader on the matter of assigning inventions and patents.

Mr. Miketta stated in his affidavit [Pltf. Ex. 4, R. 201], that on June 5, 1947, he procured the execution of Plaintiff's Exhibits C and D attached to Plaintiff's Exhibit 1-B by Sears and Schrader, the originals of which it is to be noted were forwarded to Mr. George Breslin, counsel for Eversharp, and later delivered by Mr. Breslin to Mr. Marcus. An examination of these unilateral documents [R. 180-184] would not, in June of 1947, and indeed do not now remotely suggest that intervener-appellant is relinquishing, granting or compromising any rights with respect to inventions made by Sears and Schrader while in its employ. On the contrary, these instruments first purport to be releases from Sears and Schrader in favor of intervener-appellant and, second, purport to grant to intervener-appellant certain rights with respect to inventions and patents covering apparatus used in intervener-appellant's plant by Sears and Schrader.

Of significance is the closing language of these two documents which state that Sears and Schrader are granting these license rights *insofar as they have a right to grant such rights.*

Anyone reading these unilateral documents would conclude that perhaps they were thought necessary by patent counsel for both intervener-appellant and Eversharp to protect them with respect to fringe or incidental rights that Sears and Schrader might have brought with them into the plant of intervener-appellant. Whatever construction one might place upon these unilateral documents, it is clear that certainly no one reading them would be alerted to the fact that these documents were intended to be a relinquishment or a compromise or a grant of rights from intervener-appellant to Sears and Schrader covering inventions perfected by them while in intervener-appellant's employ. There is nothing in these unilateral instruments which was or could have been a source of notice to intervener-appellant that Sears and Schrader were asserting claims to the ownership of the invention embodied in the patent in suit adverse to intervener-appellant.

Mr. Miketta himself half-heartedly admitted that these releases in no way released Sears and Schrader from any obligation to assign inventions made in the course of their employment [R. 131, 132]; and counsel for plaintiff-appellee so stipulated [R. 138].

The utter unreliability of Mr. Miketta's testimony with respect to his purported alleged direct and actual communications to intervener-appellant on the matter of the position taken by Sears and Schrader is further evidenced by the peculiar nature of the compromise that was purportedly made between Sears and Schrader and intervener-appellant. Mr. Miketta knew and so admitted on the stand that as a matter of law intervener-appellant had at least shop rights with respect to inventions made by Sears and

Schrader [R. 129]. Furthermore, an inspection of the so-called Snyder document [Deft. Ex. D-6, R. 187 *et seq.*] does not, as a matter of law, disclose a relinquishment of intervener-appellant's rights to Sears' inventions. Sears' inventions embodied in the patent which is the subject-matter of this suit were admittedly made in the course of his employment for intervener-appellant in its plant and at its expense [Finding XIII, R. 47; Sears, R. 100; Kimberly, R. 268, 269]. Under these admitted circumstances, the invention and the right to any patent which might issue thereon would, as a matter of law, belong to intervener-appellant (*Standard Parts Co. v. Peck,* 264 U. S. 52). At the very least, it should have been apparent to Mr. Miketta that intervener-appellant certainly had a substantial basis for claiming ownership to Sears' inventions and any patents which might be issued thereon.

Had Mr. Miketta fully communicated the Sears-Schrader position to intervener-appellant as he claims to have done, wouldn't we logically expect that intervener-appellant or its imminent successor, Eversharp, would have said substantially as follows?

> "We understand that Sears and Schrader are refusing to sign a general assignment of patent rights covering inventions made while in Kimberly's employ. Let them refuse. We are the owners of all inventions made by them in our employ and we shall, in our good time, compel them to assign to us patent rights covering such inventions. In any event, the very least that we have with respect to these inventions are shop rights!"

What sense does it make therefore to assert that intervener-appellant accepted such shop rights which is the

very least that it had in any event, if the acceptance of such shop rights was in any sense intended to be a relinquishment to Sears and Schrader of the full ownership of the inventions which intervener-appellant believed it owned and which even a superficial discussion of Defendants' Exhibit D-6 [R. 187] and the background under which it was executed would have confirmed.

We earnestly submit therefore that Mr. Miketta must be very much mistaken in his assertion that he ever discussed the adverse claims of Sears and Schrader with intervener-appellant's executives or other representatives.

Nor was the conduct of Mr. Miketta in December of 1953 after intervener-appellant discovered the pendency of this action consistent with his contention, nebulous as it is, that he had informed representatives of intervener and that said representatives knew of the refusal of Sears and Schrader to assign patent rights to intervener-appellant on the ground that they were not obligated to do so. Although approached in December of 1953 for an explanation of how plaintiff-appellee happened to hold patent rights to an invention made by Sears and Schrader while in intervener-appellant's employ, Mr. Miketta significantly failed to call to the attention of Mr. Taube or Mr. Marcus that they were in on these alleged conferences and certainly knew about the arrangement that had allegedly been worked out with Sears and Schrader.

Mr. Miketta also significantly failed to call to the attention of Mr. Taube or Mr. Marcus that in 1950 and again in 1952 he had discussed this patent with Mr. Taube. We also call this Honorable Court's attention to Mr. Miketta's letter of December, 1953, addressed to Mr. Marcus, at-

tached to Plaintiff's Exhibit 4 [R. 206]. This is hardly a letter for one to write to a person who is supposed to be familiar with the matters alluded to therein. This letter is couched in language that would be used in addressing a person that was hearing the facts for the first time. It must be borne in mind that in this December, 1953, visit to Mr. Miketta, Mr. Marcus made it known to him that intervener-appellant was aggrieved at the discovery that Mr. Sears and Mr. Schrader had patented the invention covering the swedging machine [Miketta, R. 249]. It is difficult to understand how Mr. Miketta could have resisted the impulse to immediately point out that there was no basis for intervener-appellant's feeling aggrieved since according to Mr. Miketta this was a matter that was certainly known to it and had all been worked out with Sears and Schrader back in 1947 with its full knowledge and consent.

Mr. Miketta's confusion and the unreliability of his testimony is again illustrated by the following: He first testified on September 20, 1954 [Intervener's Ex. B, R. 244] that he had never represented Mr. Sears prior to June 8th or 9th of 1947. Later it was necessary for him to correct this testimony by the execution of his second affidavit [Pltf. Ex. 4-A, R. 211, 212] in which he belatedly stated that he had been employed by Sears and plaintiff-appellee in May of 1947. He was also confused on other dates when he testified [Intervener's Ex. B, R. 246] that he had discussed the preparation of the releases [Pltf. Exs. C and D attached to Pltf. Ex. 1-B, R. 180, 181] on May 28, 1947; although he testified elsewhere that the entire matter of obtaining shop rights and re-

leases from Sears and Schrader did not even arise until a date subsequent to June 2nd or 3rd, 1947, when for the first time Sears and Schrader purportedly refused to execute a general assignment [R. 112-115, 200].

Mr. Miketta's testimony, particularly when viewed in the light of the very awkward position which he occupied by reason of his dual representation of the parties to the controversy, affords no support to the Finding that intervener-appellant had actual notice through Mr. Miketta of the adverse claims of Sears and Schrader.

2. The Contention of Plaintiff-Appellee That Sears and Schrader Back in May and June of 1947 Asserted That They Were Not Obligated to Assign Inventions to Intervener-Appellant Made by Them While in Its Employ Is Refuted by Plaintiff-Appellee's Exhibit D.

Plaintiff-appellee makes much of the proposition that intervener-appellant was informed by Sears and Schrader back in May and June of 1947 that they had no obligation to assign inventions to intervener-appellant made while in its employ. Plaintiff's Exhibit D [R. 181-184] completely belies that contention. In this agreement, Schrader expressly assigns to intervener-appellant an invention covering a resilient cartridge "made by said Clarence O. Schrader during his employment by Kimberly Corporation. . . ." It is this very instrument, moreover, which plaintiff-appellee contends was an instrument which was or should have been a source of actual notice to intervener-appellant that Sears and Schrader were asserting that they *were not obligated* to assign inventions to it made while in its employ. It is difficult indeed to conceive a more preposterous contention that this Exhibit D

should have been notice to intervener-appellant of facts directly contrary to the facts disclosed by its contents. The true meaning and the evidentiary value of this document, Exhibit D can be determined by this Honorable Court without the necessity of hearing or seeing the witnesses.

3. Testimony of Kenneth F. Croan.

Mr. Croan first filed an affidavit [Pltf. Ex. 2, R. 191] in which he stated that some time prior to June, 1950, he saw a copy of the patent in suit at the executive offices of intervener-appellant. It is to be noted first that this affidavit makes no mention of any conversations had by Croan with anyone nor does the affidavit identify any executive of intervener as being present at that time. It should be remembered that Mr. Croan was employed by plaintiff-appellee as its production manager [R. 84, 85] and it is not unreasonable to suppose that in making this affidavit that he tried to make it as favorable to his employer's case as his memory of the circumstances would permit. Is it not reasonable to expect, therefore, that at the time Mr. Croan made this affidavit he must have searched his memory concerning the circumstances under which he saw the copy of the patent? If he did search his memory what fact could be more important than that he remembered talking to Mr. Taube at the time he saw the patent? Yet his first affidavit makes no mention of any conversation with Mr. Taube.

But approximately three months later, we suddenly find Mr. Croan not only testifying [R. 88, 89] that he had conversations with an executive of intervener-appellant at the time he saw the copy of the patent, but that that executive officer was Mr. Taube. But how does Mr.

Croan come to the belated conclusion that it was Mr. Taube? Because he actually had a present recollection of having talked to Mr. Taube? Not at all! Mr. Croan admits in effect that he is merely speculating and surmising and that somehow, by some mental process, he has come to the conclusion that the only person he could have talked to must have been Mr. Taube [R. 89].

Mr. Croan's confusion is again demonstrated when he states [R. 85] that he was employed by intervener-appellant for a period of six months in 1950 and that it could have been even earlier than January, 1950, that he had these alleged conversations with Mr. Taube, although the patent was not issued until February 21, 1950 [R. 90]. It would seem difficult to ascribe any probative value to Mr. Croan's testimony.

4. The Eversharp-Kimberly Option Agreement of June 14, 1947, Afforded No Actual Notice to Intervener-Appellant of the Adverse Claims of Sears and Schrader and the Alleged Fraud When Taken Into Consideration With the Circumstances and Background Surrounding Its Preparation.

During May and June of 1947, there were negotiations between Eversharp and the stockholders of intervener-appellant with respect to the option agreement covering the purchase and sale of the shares of said stockholders. These negotiations culminated in the execution of an option agreement dated June 14, 1947 [R. 176, 177]. In the clause which obligated the stockholders to assign inventions, "know-how," etc., Sears was specifically excepted. Mr. Taube's explanation as to the reason for this omission is very clear and convincing. He pointed

out that he had been informed by Mr. Miketta that Sears was going into a new and competitive business; that he, Mr. Taube, did not believe that Sears was or should be obligated to assign future inventions and that as far as past inventions were concerned, he relied upon Mr. Sears' previous representations to him that everything patentable had already been taken care of [R. 255, 260, 264]. Under these circumstances and in the light of these background facts, this clause in the June 14, 1947, option agreement excepting Sears from the obligation to assign patents did not alert Mr. Taube or any other executive of Kimberly Corporation concerning the alleged fraud perpetrated against intervener-appellant in the matter of the swedging machine patent—the patent in suit. Among the stockholders who also signed the option agreement was one H. Donovan Green. The phrase "and H. Donovan Green" was added by later insertion, after the name of Sears, to except him also from the clause requiring stockholders to assign inventions and "know-how," although Green actually was, *by express contract,* obligated to assign inventions [Deft. Ex. D-6 attached to Pltf. Ex. 1-B, R. 187, 188, 189]. Obviously, therefore, the reasons for the omission of Sears and of Green were based on grounds other than they were not obligated to assign past inventions made in the course of their employment.

III.

The Findings by the Lower Court Being Clearly Erroneous, It Is the Duty of This Court to Reverse.

Rule 52(a) F. R. C. P. has been interpreted by the Supreme Court, as well as by this Honorable Court and other Federal Courts of Appeal, to the effect that even if there is evidence to support it, yet if clearly erroneous, the trial court must be reversed. Authorities to this effect will be considered hereinafter.

Especially is such reversal manifestly proper when much of the evidence is in the form of documents and affidavits, which the appellate court is in as good a position to appraise as the trial court.

Judge Frank in *Orvis v. Higgins,* 180 F. 2d 537 (C. A. 2), discusses this as follows at page 539:

> ". . . Where a trial judge sits without a jury, the rule varies with the character of the evidence: (a) if he decides a fact issue on written evidence alone, we are as able as he to determine credibility, and so we may disregard his finding. (b) Where the evidence is partly oral and the balance is written or deals with undisputed facts, then we may ignore the trial judge's findings and substitute our own, (1) if the written evidence or some undisputed fact renders the credibility of the oral testimony extremely doubtful, or (2) if the trial judge's finding must rest exclusively on the written evidence or the undisputed facts, so that his evaluation of credibility has no significance. (c) But where the evidence supporting his finding as to any fact issue is entirely oral testimony, we may disturb that finding only in the most unusual circumstances.

"It follows that evidence sufficient to support a jury verdict or an administrative finding may not suffice to support a trial judge's finding. So in the instant case, perhaps, on the record evidence, we might have affirmed a jury's verdict or an administrative agency's finding in plaintiff's favor. That, however, we need not decide. For here the finding is that of a trial judge, and the evidence consists in large part of facts neither side disputes, in circumstances such that the trial judge's evaluation of credibility becomes unimportant. In short, for reasons we shall state, the undisputed facts are such that we have a 'definite and firm conviction' that the trial judge was mistaken in finding that Orvis and Mrs. Orvis 'each pursued an independent course' in creating the 1934 trusts, and that no reciprocity was intended. We therefore hold that finding 'clearly erroneous,' and hold, rather, that each of those trusts was made in consideration of the other.

"In so holding we assume that, because of the 'evenescent factor which cannot come before us'—*i.e.,* the demeanor of the witnesses—the trial judge fully believed everything they said. Even so, there is nothing in the testimony which in any manner offsets what we believe to be the virtually irresistible inference drawn from the undisputed facts. . . . The finding of an absence of such an intention must, then, depend not on an inference drawn from anything positive in the testimony concerning statements of intention made by Mr. and Mrs. Orvis, but on an inference from their conduct. And that inference, in turn, must rest on a belief in the purely chance concurrence of several events, although the coincidental occurrence of those events would ordinarily be highly improbable. Such a belief ought not to be the foundation of a trial judge's finding on a fact issue, in favor

> of that side having (like plaintiffs here) the burden of proof as to that issue, unless the purely chance character of those events is positively confirmed by clear evidence. There is no such confirmatory evidence here."

This reasoning is especially applicable here, and is in conformity with the leading case of *United States v. United States Gypsum Co.*, 333 U. S. 364, 394, 68 S. Ct. 525, wherein the Court makes the oft-repeated statement at page 394:

> ". . . That rule prescribes that findings of fact in actions tried without a jury 'shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses.' It was intended, in all actions tried upon the facts without a jury, to make applicable the then prevailing equity practice. Since judicial review of findings of trial courts does not have the statutory or constitutional limitations of findings by administrative agencies or by a jury, this Court may reverse findings of fact by a trial court where 'clearly erroneous.' The practice in equity prior to the present Rules of Civil Procedure was that the findings of the trial court, when dependent upon oral testimony where the candor and credibility of the witnesses would best be judged, had great weight with the appellate court. The findings were never conclusive, however. A finding is 'clearly erroneous; when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed."

This Honorable Court has repeatedly endorsed the doctrine set forth in this Supreme Court case.

One of the cases is *Equitable Life Assur. Soc. of the United States v. Irelan,* 123 F. 2d 462 (C. C. A. 9). In that case, although the trial court found that the insured died by drowning, this Court reversed that finding as follows at page 464:

> "In our view, the evidence produced here so clearly points to suicide as to overcome the presumption of accident. We need not inquire whether, as appellant contends, the opinion testimony of appellees' medical witness ought to have been excluded. The evidentiary value of the opinion is so inconsiderable as to render it worthless for all practical purposes; and the fact that it was given orally does not require the reviewing court to accept it as adding to the weight of the finding below."

Another is *Pacific Portland Cement Co. v. Food Machinery & Chemical Corporation,* 178 F. 2d 541 (C. A. 9).

In *Smyth v. Erickson,* 221 F. 2d 1, also a decision by this Court, the Court reversed the trial court and, on page 4, says:

> ". . . The trial court made a finding that Mazie incurred liability for the attorney fees with the intention and expectation on her part that she would be reimbursed therefor from the guardianship estate. Under Rule 52(a) of the Federal Rules of Civil Procedure, 28 U. S. C. A., the findings of the trial court must be sustained unless clearly erroneous. Where, however, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed, the finding is clearly erroneous and must be set aside."

In decisions of other appellate courts as well, the presumed sanctity of the findings of fact have been held ineffective when the findings are clearly erroneous.

See:

Aetna Life Ins. Co. v. Kepler, 116 F. 2d 1 (C. C. A. 8).

In another case, *In re Leichter,* 197 F. 2d 955 (C. A. 3), the Court of Appeals at page 957 says:

". . . The record, however, utterly fails to support the Referee's determination that the bankrupt was 'a large stockholder' in the corporation. Indeed, it is bare of any proof as to the extent of the stock holdings of the bankrupt; there is only testimony to the effect that he was a stockholder—nothing more, nothing less. Moreover, there is nothing in the Referee's statement of facts or in his conclusion of law which gives any light as to his reason for finding that the bankrupt was 'a large stockholder.' Apparently the Referee based his finding on 'speculation' or 'intuition.'

"On that score, we have on previous occasions held that '*A finding of fact must have more substantial foundation than an intuition . . .*' *and that while the trier of the facts* '"*has the primary function of finding the facts . . . weighing the evidence, and choosing from among conflicting factual inferences and conclusions those which it considers most reasonable*" *it is well-settled that speculation cannot be substituted for proof and* "the requirement is for probative facts capable of supporting with reason, the conclusions expressed in the verdict."'" (Italics ours.)

See also:

Galena Oaks Corporation v. Scofield, 218 F. 2d 217 (C. A. 5);

Bruce v. McClure, 220 F. 2d 330 (C. A. 5);

United States v. Forness et al., supra.

Of particular interest is *Gindorff v. Prince,* 189 F. 2d 897 (C. A. 2), in connection with the fantastic testimony of Croan, and with the inarticulate and nebulous testimony of Mr. Miketta.

The appellate court reversed the judgment on the ground of the incredible nature of the testimony of plaintiff, Gindorff.

Gindorff asserted that as an employee of J. P. Morgan & Company he gave valuable services to Prince who was a man of great wealth—about $80,000,000.00. The pertinent portions of the decision reversing the award to Gindorff are as follows:

On page 898, the Court stated:

> "We are under no illusion as to the serious concern, under our own decisions as well as others, with which we must approach the step of reversing a trial judge on issues so dependent upon veracity. Nevertheless our ultimate responsibility is clear under the Rule itself and has been restated by the Supreme Court, notably in United States v. United States Gypsum Co., 333 U. S. 364, 395, 68 S. Ct. 525, 542, 92 L. Ed. 746, where the court went on to say: 'A finding is "clearly erroneous" when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed.' This court has that definite and firm conviction."

On page 899, the Court further stated:

> ". . . All this is but one of many reflections of the uncertainties in plaintiff's testimony, as well as his rather hazy knowledge of defendant's affairs with which he was supposed to be so familiar. So at his pre-trial examination, plaintiff talked in terms of

futurity, rather than present contract. Thus he then quoted the defendant as saying: 'I have decided that I would like to have you come with me. Before you do so, I want to make certain changes in my organization so as not to disturb them. Then I want you to come with me and act as personal adviser and consultant to me; and, in time, I will appoint you "trustee" . . . I will appoint you a trustee of the Maine company, that being the top holding company of my whole enterprise. Meanwhile I want you to stay at Morgan & Company until I get these organization changes made.'

"In May, 1935, a month after this agreement, plaintiff says he told defendant that he had an offer of another position at double his Morgan salary, but that defendant asked him to 'remain at Morgan's until I get these changes made' and he agreed to do so. But here hope deferred apparently did not make the heart sick. For in conversations on January 9 and 10, 1936, defendant appeared still to be talking in terms of futurity. 'So I will ask you to wait a little longer, and meanwhile remain where you are at Morgan's.' (Plaintiff said that there were also present at the conversation of January 9 Messrs. McDonough and Barriger; McDonough died in 1941 and at the trial Barriger denied—as did defendant—that the conversation ever took place.)"

On page 902, the Court said:

"The final scene on November 10, 1945, is as curious as any. According to plaintiff's testimony he went to see defendant at Newport, and defendant asked him to go to Chicago to undertake a study of the losses of the Stock Yards Company. Plaintiff replied that because of the time involved he would have to take a leave of absence or resign from his business

position, but that he was prepared to resign if the agreement between them would be put into effect. Then Prince told plaintiff that he had appointed his own nephew in plaintiff's place and plaintiff was not to be trustee and officer in his companies. Plaintiff protested that he was shocked, and asked if he was not entitled to compensation or at least out-of-pocket expenses. Defendant asked what they were; plaintiff gave $2,500 as the figure; and defendant, saying 'That is nothing, my boy; nothing,' gave him a check. But plaintiff would not receive it outright and insisted on giving a note for it; this is the transaction previously noted where the earlier debt was consolidated in a single note of $3,300, to be repaid at the rate of $100 a month. Plaintiff's explanation of his strange course is that he wanted to prevent the defendant from claiming that the check was in full payment for all his years of service. Defendant's own testimony was that 'he came down to borrow money and I let him have it. . . . That he was hard up and wanted some money, you understand, to help him out, and I let him have the money.'

"Against this background the services which eventually impressed the district judge as unusual assume their proper perspective. We agree with defendant's statement in his brief: 'Plaintiff's alleged services were no more than a voluntary and relatively inconsequential investment of his spare time in his campaign for self-advancement. He admitted that they were rendered with no thought of money compensation but only in appreciation of courtesies and assistance extended to him by defendant. His claim (which he did not assert for over twelve years) was an afterthought prompted by disappointment over defendant's failure to give him employment.'

". . .

". . . Plaintiff filed extensive findings of fact which the court accepted; while defendant filed a motion for a new trial which came on for a hearing in November, 1949.

". . .

"As they stand, therefore, there is a certain inconsistency or hiatus in the findings which we should find troublesome were we to accept them as filed." (P. 903.)

". . .

". . . The findings therefore do not support the judgment rendered and reversal would seem necessary in any event. We need not pursue this further, however, since we hold that neither express contract nor agreement to pay for services was proved by credible evidence." (P. 904.)

IV.

This Being an Equity Case Involving Fraud, the Burden of Proof of the Bar of Laches Is Upon Plaintiff-Appellee; and This Burden Was Not Sustained, Especially With Respect to the Showing of Prejudice or Injury to It.

The lapse of time between May, 1947, to January, 1954, resulted in no prejudice or injury to Hartley Pen Company, appellee herein. No evidence whatever on this point was introduced by that appellee, although it had the burden of proof.

This is clearly stated in *Shaffer et al. v. Rector Well Equipment Co., Inc.,* 115 F. 2d 344 (C. C. A. 5), wherein, at page 347, the Court says:

"The burden of proof to establish the defense of laches is on the defendant [United Drug Co. v. Ireland, 8 Cir., 51 F. 2d 226; Kelly v. Boettcher, 8 Cir.,

> 85 F. 55, 62; Rajah Auto Supply Co. v. Belvedere Screw & Machine Co., *supra*] and the failure of defendant to prove injury or damage to itself—a vital element in the establishment of laches—would be fatal to such a defense, even if it had maintained that defense in other respects."

It is well understood that in equity cases involving fraud, the question of laches does not strongly appeal to the conscience of a chancellor. See *National Circle, Daughters of Isabelle v. National Order of Daughters of Isabella,* 270 Fed. 723, 734 (C. C. A. 2):

> "In our opinion the complainant has not lost its right to the protection of its name by its delay in asking the relief it now seeks. Its right rests on the principle stated by Chief Justice Fuller above quoted that, where consent to the use of a name is to be inferred from knowledge and silence, such consent lasts no longer than the silence from which it springs. *Moreover, in cases of fraud the question of laches does not strongly appeal to the conscience of a chancellor."* (Italics ours.)

The findings in this case are based upon laches, in analogy to the *California Statute of Limitations* relating to fraud. The following discussion shows that in *equity* cases there are important exceptions to the rule that the period set forth in the statutes is applicable. This is supported by California decisions, as well as by decisions of the Federal courts. Some of these Federal cases discuss *Russell v. Todd,* 309 U. S. 280.

The fraud committed here is one which is self-concealing, very much in the same way as the alleged fraud in *Lightner Mining Co. v. Lane et al.* (Supreme Ct. Cal.),

120 Pac. 771, particularly pp. 775, 776, 161 Cal. 689, 701. All of this decision is especially important since it discusses the leading United States Supreme Court case of *Bailey v. Glover,* 21 Wall. 342, 22 L. Ed. 636.

Furthermore, the Supreme Court of California, in a decision entitled *In re Harootenian's Estate,* 38 Cal. 2d 242, 247, 238 P. 2d 992, 995, asserts that lapse of time alone is *not* sufficient to support the plea of laches, when there is no change affecting the legal rights of the parties, nor any financial loss indicated. At page 247, the Court says:

> "The pleadings disclose that the plea of laches interposed by demurrer and motion is also unavailing. Nothing is thus shown by which the rights of the proponents could be prejudiced on account of the delay in filing the complaint in intervention. The lapse of time alone is not sufficient to support the plea. No change affecting the legal rights of the parties nor any financial loss is indicated. No circumstances or facts are alleged which would sustain the judgment of dismissal on that ground. Cahill v. Superior Court, 145 Cal. 42, 47, 78 P. 467; Thornton v. Middletown Educational Corp., 21 Cal. App. 2d 707, 711, 70 P. 2d 234. The intervenor is therefore entitled to a trial on the merits of the contest if she is an interested person who may contest the will."

This decision affirmed a decision by the District Court of Appeal, Fourth District, 228 P. 2d 595, 599. The District Court of Appeal therein held that there must be a showing first, of neglect or omission to assert a right, and, second, of a *consequential passage of time which caused prejudice to an adverse party.* It quotes from other California cases to the same effect.

There is not an iota of evidence in this case showing any prejudice to plaintiff that would result by the mere lapse of time.

Indeed, the Supreme Court of the United States is in accord with this California doctrine in *Holmberg et al. v. Armbrecht, et al.,* 327 U. S. 392, 66 S. Ct. 582, and particularly pages 396 and 397. This case, dealing with a fraud case, also discusses the leading cases of *Bailey v. Glover* and *Russell v. Todd, supra,* in connection with Federal statutes of limitations. The decision is in conformity with the California rule discussed in *In re Harootenian's Estate, supra.*

In view of the California cases cited above and the United States Supreme Court case just discussed, intervener urges that the defense of laches should fail in a situation where there was a wilful *concealment* of a cause of action, and where the perpetrator of the fraud suffered no detriment by intervener's delay in instituting the present action.

In fact, this Honorable Court, as recently as October 18, 1954, in *Sidebotham v. Robison,* 216 F. 2d 816, states at page 827:

> "Of course, there may be estoppel and laches, even in such cases. But these are defensive matters under the Federal Rules of Civil Procedure, Rule 8(c). See Topping v. Fry, 7 Cir., 1945, 147 F. 2d 715; Copeland Motor Co. v. General Motors Corp., 5 Cir., 1952, 199 F. 2d 566; Callaway v. Hamilton Nat. Bank of Washington, 1952, 90 U. S. App. D. C. 228, 195 F. 2d 556, 559-563. This also conforms to the substantive law of California. Unlike the statute of limitations, in which lapse of time alone bars the

remedy, bar by reason of laches does not arise unless there appear some circumstances, in addition to mere lapse of time, showing prejudice to some one from long delay. See, Cahill v. Superior Court, 1904, 145 Cal. 42, 46, 78 P. 467; Swart v. Johnson, 1942, 48 Cal. App. 2d 829, 833-834, 120 P. 2d 699; Field v. Bank of America, 1950, 100 Cal. App. 2d 311, 223 P. 2d 514."

Conclusion.

While laches and other statutes of repose are intended to serve the salutary purpose of barring stale claims it is equally settled that they should not be employed as a shield for fraud. Much of the evidence in this case is documentary. Some of these documents standing alone apart from any oral testimony eloquently testify to the utter baselessness of the main contentions of plaintiff-appellee in this case. With respect to such oral testimony which was introduced by plaintiff-appellee, we believe that an analysis of the same will disclose that this testimony is of such an unsatisfactory nature as to be virtually worthless.

It is respectfully submitted that the judgment of the trial court should be reversed.

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